



State of Utah
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL, GAS AND MINING

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September 21, 2000

David Shoemaker
Molycorp Incorporated
P.O. Box 469
Questa, New Mexico 87556

Re: Stability Concerns of Bonding Company, Small Fry Mine, M/037/022, San Juan County Utah

Dear Mr. Shoemaker:

It has come to the attention of the Division that United Pacific Insurance Company, the bonding company you used to post your reclamation surety bond for your Small Fry Mine, has recently received a C rating (a vulnerable "weak" rating) with the Best's Key Rating Guide, see attached. The Best's Key Rating Guide is the oldest and most widely recognized rating agency dedicated to the insurance industry. On July 7, 2000, the rating was B++ (a secure "very good" rating).

While a certain amount of volatility in surety ratings is inevitable, I am writing to let you know of a rulemaking effort dealing with reclamation sureties that is informally before the Board of Oil, Gas and Mining. As currently drafted the proposed rule reads:

R647-4-113. 4.11 Corporate surety bond which has been issued by a company listed as an acceptable surety in the current issue of the U.S. Treasury Department Circular 570 as amended by publication in the Federal Register.

(Please Note: The U.S. Treasury Department Circular 570 is the list of acceptable sureties for federal projects, which will be used as a guideline for surety bonds posted with this Division).

Should this rule be promulgated, the Division of Oil, Gas and Mining will review this list to ensure fiscal soundness for corporate surety companies that provide assurance of reclamation to the state of Utah. In this capacity should the rating strength of a surety fail to meet the criteria in the new rule, the Division will order a replacement surety. I am sure you agree that maintaining this fiscal strength is in the best interests of a healthy mining industry, your company and the State.

If, after reviewing this letter, you have questions about your ability to meet our current and possibly our future reclamation surety requirements, please call me at (801) 538-5370 or Pamela Grubaugh-Littig at (801) 538-5268.

Sincerely,

Lowell P. Braxton
Director

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Attachments: Best's Key Rating